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**State Auditor Vaudt Reviews Governor's FY 2005 Budget**  
**Concerns: More borrowing and spending with little clarity or long-term planning**

(Des Moines, Iowa) – Continuing in his role as the “Taxpayers Watchdog” and to report directly to the people of Iowa on the condition of the State's finances, State Auditor David A. Vaudt has completed his review of the Governor's proposed Fiscal Year 2005 budget. Some of his findings include:

Lack of Clarity

“If our elected leaders truly want to make sound financial decisions for Iowa's return to good fiscal health, more clarity is sorely needed,” noted Auditor Vaudt. “It is critical that the budget document provide a summary of what I call 'true total General Fund expenditures.' The Governor's budget clearly lacks this level of clarity. While the Governor's budget purports to spend \$4.771 billion, actual 'true total General Fund expenditures' total \$4.989 billion – 4.7% more than reflected in the budget document.”

Ignores accumulated debt

Other than recommending repayment of \$20 million borrowed from the Senior Living Trust Fund, the Governor's budget fails to address the staggering \$930 million that's been taken from over 30 different funds or the \$548 million that has been borrowed from other funds and is required by law to be repaid. “It is a fact that Iowa faces an alarming structural deficit,” said Auditor Vaudt. “The citizens of Iowa deserve to know which funds are still viable, which funds will be repaid, and when. It's time our elected officials develop and implement a repayment plan. The Governor's budget contains no long-term plan for repaying the General Fund's debts.”

More borrowing and more spending

The Governor proposes \$300 million of bonding and \$340 million of tax increases. Taking on more debt and raising taxes is not sound fiscal policy when you look at Iowa's structural deficit and concerns for immediate and long-term economic growth. “Borrowing even more money – at a time when no repayment plan exists for our current debt is risky fiscal policy,” noted Vaudt. “Our structural deficit is simply too large to be ignored.”

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# Auditor of State David A. Vaudt

## Comments on Governor Vilsack's & Lt. Governor Pederson's Fiscal Year 2005 Budget Recommendations

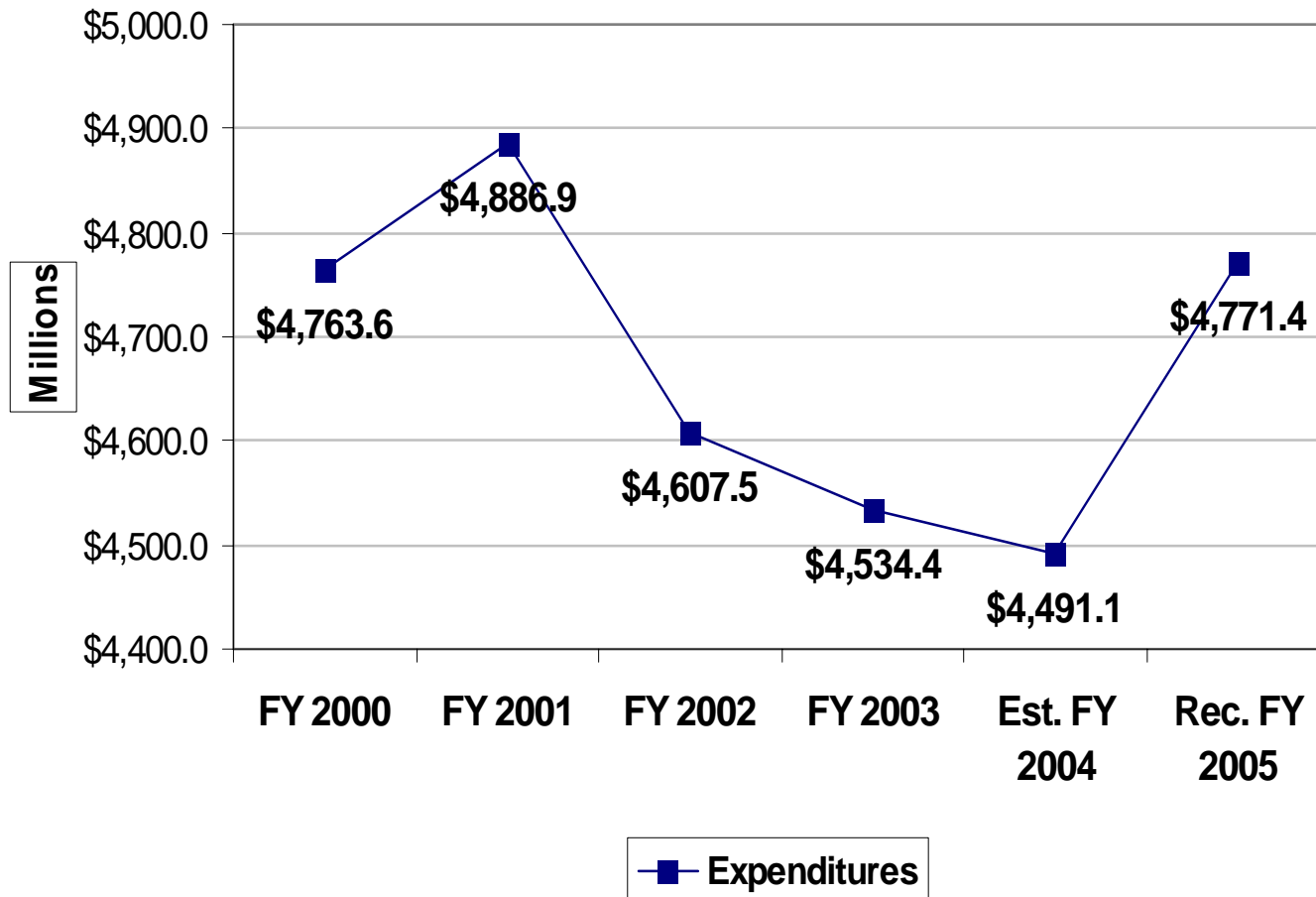
February 6, 2004  
Press Briefing

## State of Iowa General Fund

Remarks today will center on two primary budgeting principles:

- Clarity
- Longer-range Focus

## State of Iowa General Fund Appropriations



## State of Iowa General Fund

Auditor Vaudt's budgeting recommendation -  
February 18, 2003:

Clarity - It is critical that the budget document provides a summary of what I call "true total General Fund expenditures." By that I mean not only those expenditures that are being funded with General Fund revenues and revenue transfers, but also those General Fund expenditures that are being shifted to non-general fund resources.

# State of Iowa General Fund Expenditures Versus "True Total Expenditures" FY 2000 through FY 2005

	<u>Expenditures</u>	<u>Expenditures Shifted*</u>	<u>"True Total Expenditures"</u>
FY 2000	\$4,763.6	-	\$4,763.6
FY 2001	\$4,886.9	\$ 86.1	\$4,973.0
FY 2002	\$4,607.5	\$ 265.8	\$4,873.3
FY 2003	\$4,534.4	\$ 316.5	\$4,850.9
Est. FY 2004	\$4,491.1	\$ 258.8	\$4,749.9
Rec. FY 2005	<u>\$4,771.4</u>	<u>\$ 218.4</u>	<u>\$4,989.8</u>
Increase (Decrease):			
FY 2004 v. FY 2000	<u>\$ (272.5)</u>		<u>\$ (13.7)</u>
Percentage	<u>(5.7%)</u>		<u>(0.3%)</u>
FY 2005 v. FY 2000	<u>\$ 7.8</u>		<u>\$ 226.2</u>
Percentage	<u>0.16%</u>		<u>4.7%</u>

\*Source: Legislative Services Agency

David A. Vaudt, Auditor of State, February 6, 2004

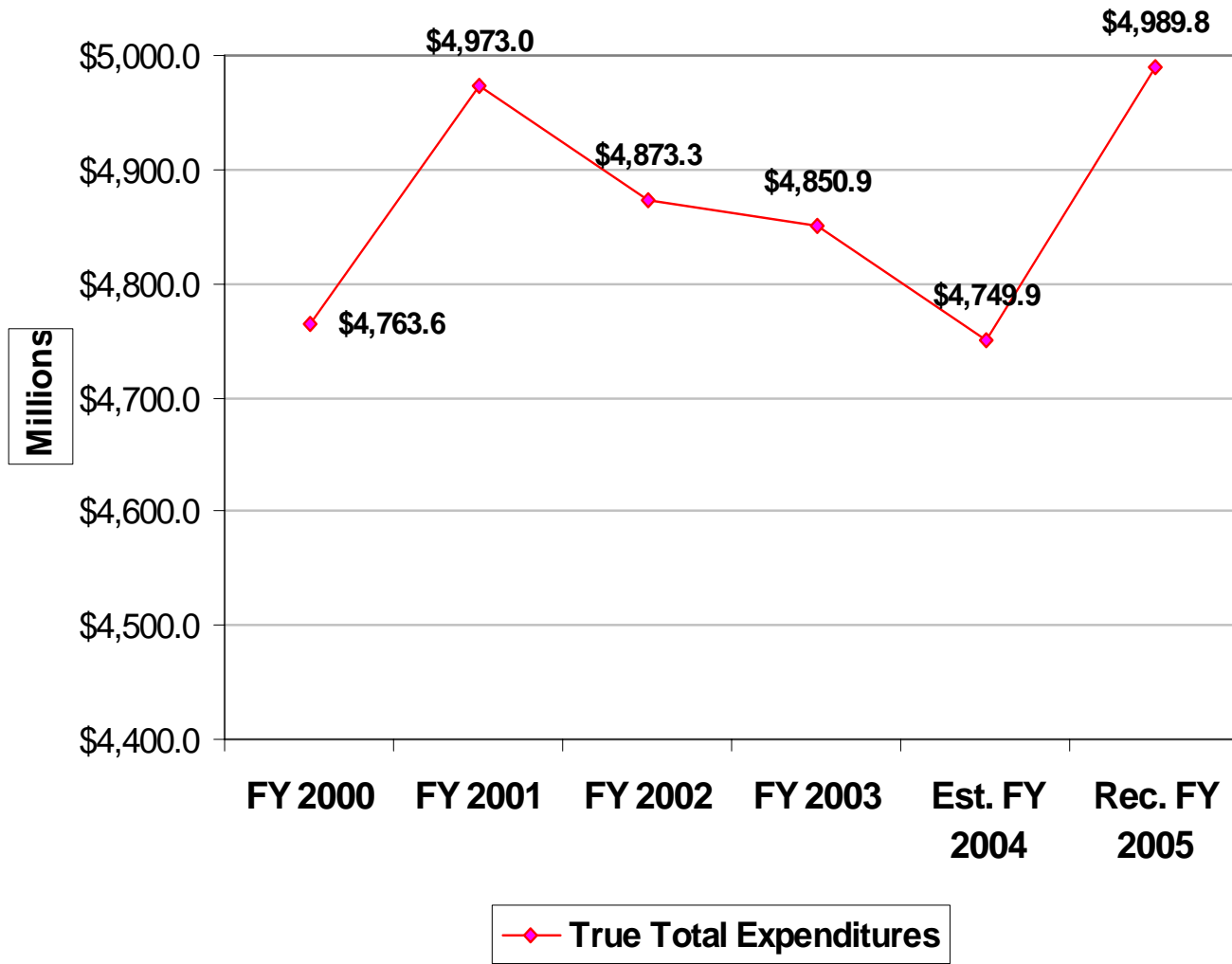
**State of Iowa  
General Fund  
Example - "True Total Expenditures"  
FY 2001**

General Fund – <u>Expenditures</u>	<u>\$ 4,886.9</u>
<u>*Expenditures Shifted to:</u>	
Underground Storage Tank Fund – For Salary Adjustment	9.0
Senior Living Trust Fund – For Medicaid	44.2
Tobacco Settlement Trust Fund – For Medicaid & Substance Abuse	32.3
Environment First Fund – For Soil Conservation	<u>0.6</u>
	<u>86.1</u>
General Fund – <u>"True Total Expenditures"</u>	<u><u>\$ 4,973.0</u></u>

\*Source: Legislative Services Agency

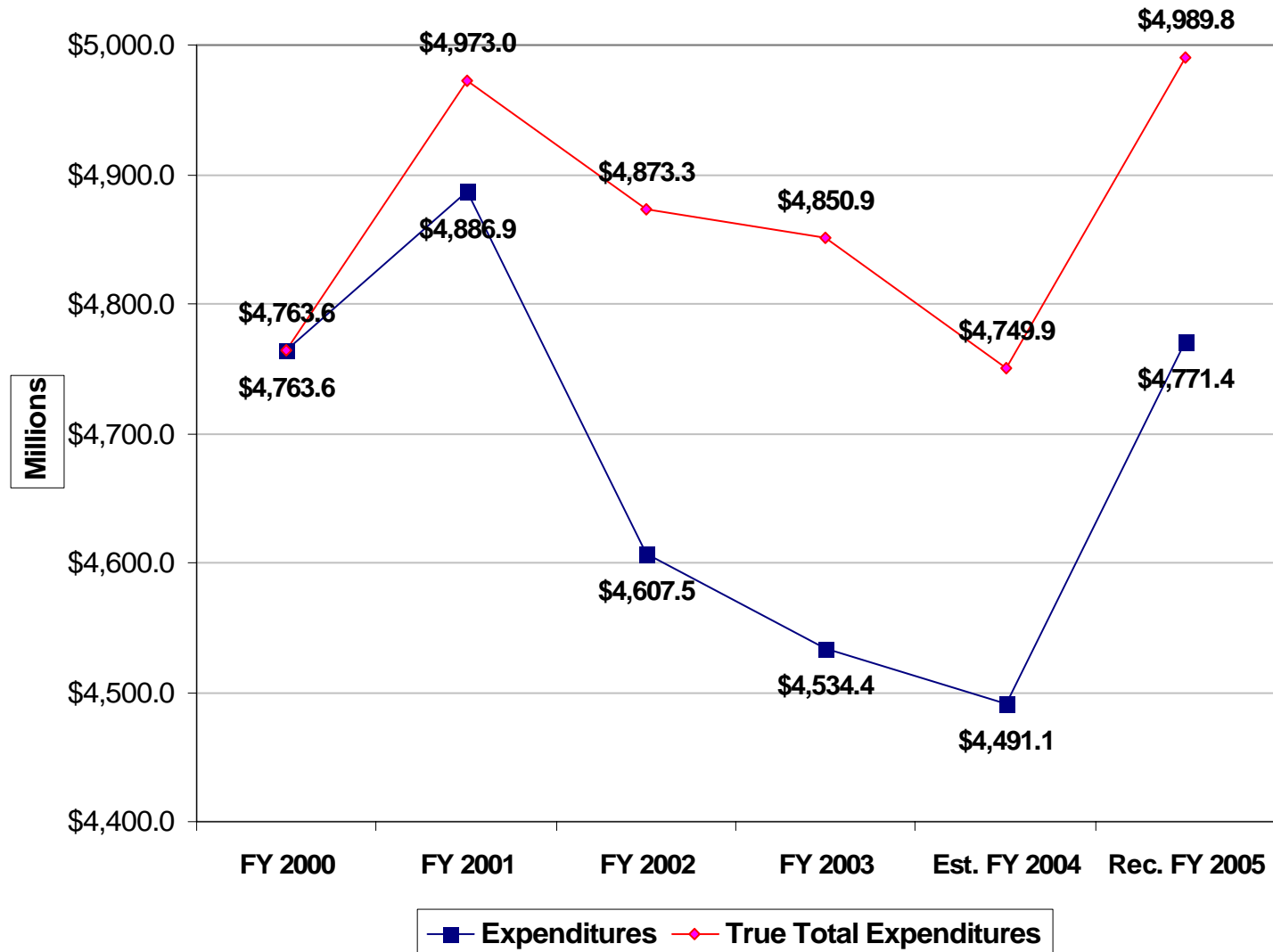
David A. Vaudt, Auditor of State, February 6, 2004

## State of Iowa General Fund Appropriations



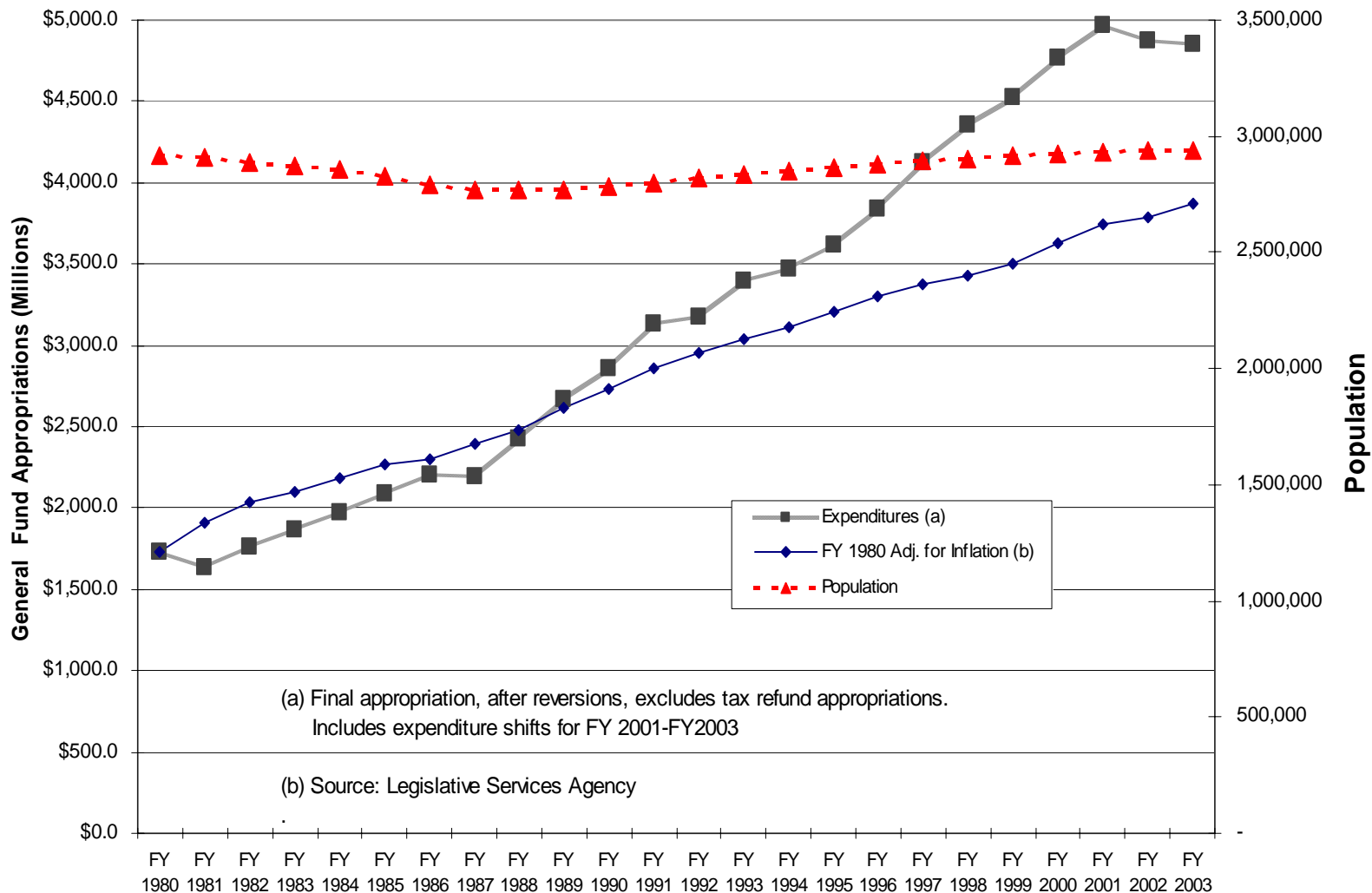


## State of Iowa General Fund Appropriations



# State of Iowa

## General Fund Expenditures and Population



## State of Iowa General Fund

- Most of the focus has been on revenues - spending is the issue - expenditures have grown significantly greater than inflation since the mid-1990's.
- The expenditure growth of the last few years is not sustainable.
- Bottom line - we need clarity in the budgeting process - it is critical that budget decisions be based upon valid, meaningful comparisons - based upon "true total expenditures."

## State of Iowa General Fund

Auditor Vaudt's briefing recommendation -  
February 18, 2003:

Longer-range Focus - Some borrowings are required to be repaid by statute. . .the budget must not only accurately reflect these borrowings, but also include a recommended repayment plan. . . factoring the repayment obligations into future year General Fund appropriations.

# State of Iowa General Fund

## Long-range Concern:

The FY 2005 budget recommendations make no mention of the almost \$550 million that has been borrowed and is required to be repaid.

### Estimated FY 2004 Cumulative Balances:

Cash Reserve Fund	\$ 66.3
Economic Emergency Fund	222.7
Tobacco Related Funds	141.8
Senior Living Trust Fund	<u>118.0</u>
	<u>\$548.8</u>

These borrowings started in FY 2001 - this is FY 2004, but a repayment plan has still not been developed.

## What must be done?

Develop and implement a repayment plan--now.

# State of Iowa General Fund

## Long-range Concern:

The FY 2005 budget recommendations make no mention of another over \$930 million taken from over 30 different funds and special accounts where repayment has never been addressed.

### Estimated FY 2004 Cumulative Balances:

Tobacco Related Funds	\$300*
Senior Living Trust Fund	230*
Other funds and special accounts	<u>400</u>
	<u>\$930</u>

\*These amounts are in addition to the amounts required to be repaid to these funds.

## What must be done?

- Evaluate funds and special accounts raided - viable without repayment?  
Priority program?
- Decide which amounts will be repaid.
- Inform the taxpayers of Iowa which amounts will not be repaid.
- Develop and implement a repayment plan, as applicable.

# State of Iowa General Fund

## Long-range Concern:

The FY 2005 budget recommendations provide for over \$340 million of tax increases as follows:

Cigarette and Tobacco Tax	\$108.0
Combined Corporate Reporting	25.0
Expanded Sales Tax Base	<u>208.3</u>
	<u>\$341.3</u>

In spite of this tax increase, the only repayment of borrowings being proposed is \$20 million to the Senior Living Trust Fund in FY 2004 by implementing the Cigarette and Tobacco Tax yet this year to generate \$36 million of additional revenue. This repayment is definitely a step in the right direction, but it still leaves \$530 million of borrowings unaddressed.

## What must be done?

Determine what long-term role any tax increase will play in repaying Iowa's borrowings, funding Iowa's priorities, and rebuilding Iowa's financial condition.

# State of Iowa General Fund

## Long-range Concern:

The FY 2005 budget recommendation proposes \$300 million of bonding, but never addresses the impact of the bonding to future budget years. How does this bonding and the over one-half billion dollars of borrowings that must be repaid impact Iowa's future resources?

## Recommendation:

Long-range planning is critical to Iowa's financial future. Iowa must set financial goals and formally plan for our future. The Governor and the Legislature should form a committee to prepare a sound and reasonable long-range financial plan for Iowa--a road map of how we are going to get to our financial destination.